

JORGE & YRIBARREN, CPAs

Review Report

QUALITY CONTROL REVIEW

For the Firm's Audit of
Kings Canyon Unified School District
for the Fiscal Year Ended June 30, 2002



STEVE WESTLY
California State Controller

March 2005



STEVE WESTLY
California State Controller

March 18, 2005

Mr. Steve Yribarren
Jorge & Yribarren, CPAs
3410 McCall Avenue, Suite 106
Selma, CA 93662

Dear Mr. Yribarren:

The State Controller's Office (SCO) completed a quality control review of Jorge & Yribarren, CPAs. We reviewed the audit working papers for the firm's audit of the Kings Canyon Unified School District for the fiscal year ended June 30, 2002.

A draft report was issued on August 25, 2004. The firm's response to the draft report is included in this final report.

If you have any questions, please contact Casandra Moore-Hudnall, Chief, Financial Audits Bureau, at (916) 322-4846.

Sincerely,

"original signed by"

VINCENT P. BROWN
Chief Operating Officer

VPB:JVB/jj

cc: Peter Mehas, Superintendent
Fresno County Office of Education
Juan Garza, Superintendent
Kings Canyon Unified School District
Arlene Matsuura, Educational Consultant
School Fiscal Services Division
California Department of Education
Jeannie Oropeza, Program Budget Manager
Education Systems, Department of Finance

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Review Report

Summary

The State Controller's Office (SCO) completed a quality control review of the audit working papers for an audit performed by Jorge & Yribarren, CPAs, of the Kings Canyon Unified School District for the fiscal year ended June 30, 2002. The last day of fieldwork was December 16, 2003.

The audit referred to above was performed in accordance with the majority of the standards and requirements set forth in *Government Auditing Standards*, issued by the Comptroller General of the United States, often referred to as generally accepted government auditing standards (GAGAS); U.S. generally accepted auditing standards (GAAS); Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (K-12 Audit Guide), published by the SCO. However, the SCO reviewers noted that the firm did not comply with some generally accepted auditing standards and government auditing standards of fieldwork. In addition, the firm did not report some non-compliance with state programs as required by the K-12 Audit Guide.

Background

Any governmental unit subject to a single audit must have the audit performed in accordance with the standards referred to in this report. According to OMB Circular A-133, the auditor's work is subject to a quality control review at the discretion of an agency granted cognizant or oversight status by the federal funding agency. In addition, *Education Code* Section 14504.2 authorizes the SCO to perform quality control reviews of working papers for audits of K-12 local educational agencies (LEAs) to determine whether audits are performed in accordance with U.S. General Accounting Office standards for financial and compliance audits.

Jorge & Yribarren, CPAs, is an independent certified public accounting firm with an office located in Selma, California. The firm consists of two partners and two staff. The firm has been the independent auditor for the Kings Canyon Unified School District since fiscal year (FY) 2000-01. During FY 2001-02, the district operated ten elementary schools, three intermediate schools, one high school, and one continuation high school, with a total average daily attendance (ADA) of 8,666 reported for the purpose of state funding. The firm performed two annual financial audits of LEAs for FY 2001-02.

Objectives, Scope, and Methodology

The general objectives of the quality control review were to determine whether this audit was conducted in compliance with:

- GAGAS
- GAAS
- K-12 Audit Guide
- OMB Circular A-133

The quality control review was conducted at the office of Jorge & Yribarren in Selma, California. The SCO reviewers compared the audit work performed by the firm, as documented in the working papers, with the standards stated in the general objectives.

Conclusion

The audit referred to above was performed in accordance with the majority of the standards and requirements set forth in GAGAS, GAAS, OMB Circular A-133, and the K-12 Audit Guide. However, the SCO reviewers noted the exceptions discussed in the Findings and Recommendations section of this report.

This report is applicable solely to the audit working papers referred to above and is not intended to pertain to any other work of Jorge & Yribarren, CPAs.

Views of Responsible Official

The SCO issued a draft report on August 15, 2004. Steve Yribarren responded to the draft report, disagreeing with some of the review results and providing additional documents for review. The final report has been modified based on additional information presented in the firm's response. The responses are included in this final report as the Attachment.

Restricted Use

This report is intended solely for the information and use of the specified parties; it is not intended to be and should not be used for any other purpose. This restriction is not meant to limit distribution of the report, which is a matter of public record.

“original signed by”

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

Findings and Recommendations

General

The Single Audit Act and *Standards and Procedures for Audits of K-12 Local Educational Agencies* (K-12 Audit Guide), published by the SCO, require audits to be performed in accordance with U.S. generally accepted auditing standards (GAAS). These standards deal with the quality of the audits performed by the independent auditor and have been approved and adopted by the American Institute of Certified Public Accountants (AICPA). GAAS is divided into three areas: (1) general standards; (2) fieldwork standards; and (3) reporting standards. The three areas are divided into ten specific standards. In addition to GAAS, auditors of governmental entities must also perform audits in accordance with generally accepted government auditing standards (GAGAS), which expands the GAAS standards in several areas.

In the course of this quality control review, the SCO reviewers found that Jorge & Yribarren, CPAs, did not comply with some elements of GAAS and GAGAS.

In addition, the firm did not report non-compliance with state programs as required by the K-12 Audit Guide.

Noncompliance With Fieldwork Standards (GAAS, GAGAS)

FINDING 1— Working paper deficiencies

The working papers did not provide adequate support for the work performed and the conclusions reached during the audit, as follows.

- A. Based on the additional documentation provided in the firm's response, the original item A regarding cash confirmations has been removed from the final report.
- B. The working papers documenting the audit procedures performed to confirm revenue were not provided. This documentation was to have been stored on the ePace Engagement Manager system. However, no documents were found.
- C. Supporting evidence of audit procedures performed for attendance reporting was inadequate. In spite of information noted in the working papers, it was not evident that additional or revised procedures were performed to ensure that reported attendance was valid and accurate. This issue is also discussed in Finding 4.

AU Section 319.105 states, in part:

The auditor uses this evidential matter as part of the reasonable basis for an opinion referred to in the third standard of fieldwork, which follows:

Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

AU Section 326.13 states, in part:

The evidential matter obtained should be sufficient for the auditor to form conclusions concerning the validity of the individual assertions embodied in the components of financial statements.

AU Section 339.01 states:

The auditor should prepare and maintain working papers, the form and content of which should be designed to meet the circumstances of a particular engagement. The information contained in working papers constitutes the principal record of the work that the auditor has done and the conclusions that he has reached concerning significant matters.

AU Section 339.02 states:

Working papers serve mainly to—

- a. Provide the principal support for the auditor's report, including his representation regarding observance of the standards of fieldwork, which is implicit in the reference in his report to generally accepted auditing standards.
- b. Aid the auditor in the conduct and supervision of the audit.

AU Section 339.05 states that working papers:

. . . should be sufficient to show that the accounting records agree or reconcile with the financial statements or other information being reported on. . . .

GAGAS Section 4.35 states:

Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.

Without adequate documentation, the judgments made and conclusions reached may not be accurate or valid. Without adequate evidential matter, errors or inadequacies of the work performed may not be detected and corrected. The opinions and assertions in the financial statements may not be correct.

Recommendation

Working papers should be prepared and retained to support all significant conclusions and judgments. The planned procedures for confirmations of cash should be modified when information reported from a third party does not agree with financial statements. The firm should establish internal control procedures to ensure that all working papers are successfully stored on the ePace Engagement Manager system.

Firm's Response

The firm made the following responses to item C of Finding 1 and to Finding 4.

Adequate procedures were performed according to the State Compliance Requirements. A copy of the working papers has been provided as evidence as to the work performed.

The reports are accompanied by the audit procedures required to perform the audit. The students were randomly selected for testing totals, and traced to teacher scantron attendance rosters for this period without error (AR 4.1 b). Students that were marked absent in the 1st period were traced to sign in sheets as arriving late, and thus correctly counted as present. All of these documents have been signed off on the bottom right corner of each page by the person preparing the workpaper, and on the left corner of the page by the supervisory review. The auditor notation, "so many changes very difficult to trace-pass" referred to one line in reporting period 3, which the auditor was able to ultimately trace to the teachers' reports without exception. Perhaps the notation should have been deleted; however, it does not require any additional procedures to be performed to determine accuracy.

SCO's Comment

Based on the firm's additional information, the working paper documentation is still deficient. AU Section 339.01 states that the information contained in the working papers constitutes the principal record of the work that the auditor has done and the conclusions that he has reached. As presented, the working papers indicate a problem in performing the audit procedures. GAGAS Section 4.35 states, "Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgements." The working papers, as presented for the SCO's review, did not contain enough information or evidence for the reviewer to determine that all procedures had been performed.

This portion of the finding remains.

FINDING 2— No evidence of supervisory review

Based on additional information provided by the firm, this finding has been removed from the final report.

Noncompliance With K-12 Audit Guide Requirements

FINDING 3— Deficiencies in state compliance testing

Based on additional information provided by the firm, this finding has been removed from the final report.

FINDING 4— Reporting deficiencies

Our review disclosed that the firm failed to report state compliance findings in the following areas.

Attendance Reporting

An attendance finding was noted in the working papers, as follows.

The computer-generated attendance registers that support the reported attendance for purposes of apportionment contained manually corrected attendance numbers. These revised numbers were not reflected on the P-2 J-18/19 submitted to the California Department of Education.

- A. The working papers indicated that a revised P-2 Report of Attendance (J-18/19) was submitted to the California Department of Education; however, based on the report of attendance in the working papers, the revised numbers were not reported. This finding was not quantified or reported, as required by *Education Code* Section 14503(a).
- B. Based on additional information provided by the firm regarding item C of Finding 1, we have determined that the CPA's report was correctly presented. No additional procedures were required, and all procedures were performed. This portion of the finding has been removed from the final report.

Instructional Time and Staff Development Reform

The working papers documented that the district received Instructional Time and Staff Reform Program (ITSDR) funding for 37 teachers who did not attend staff development training. The fiscal impact of this finding was an overpayment of \$10,857 ($37 \times \293.42) to the district. However, the firm did not report a finding in the audit report as required.

The K-12 Audit Guide, Section 520, states, in part:

Any over/understatements of ADA must be reported in the findings and recommendations section (*Education Code* Sections 41341(a)(1) and 14503(a)). When the auditor determines that the school district or county office of education has made an error in claiming apportionment attendance, due either to a clerical discrepancy or to noncompliance with attendance regulations, the auditor must quantify the error. The auditor must report all over/understated ADA and estimate the potential fiscal impact (ADA multiplied by the revenue limit) for each finding.

Schiff-Bustamante Standards-Based Instructional Materials

The working papers provided by the firm in response to the draft report contained evidence of a finding that was not reported in the 2001-02 audit. As a result of testing, an expenditure was identified as non-compliant with Schiff-Bustamante requirements. The working papers also documented that the district subsequently made a journal entry to transfer the expenditure to another program. Although the district corrected the problem, the error existed at the time of audit. In addition, the journal entry was not posted until the subsequent fiscal year. Based on the audit testing results, the firm should have reported a state compliance finding.

Consequently, the findings and recommendations section of the report is incorrect because of the firm's failure to report audit findings as required.

Recommendation

The firm should report all state compliance findings as required by the *Education Code* and the K-12 Audit Guide.

Firm's Response

The firm's response to the finding is included in Finding 1.

SCO's Comment

The finding was modified to reflect the additional information. However, the firm did not report the attendance, ITSDR and Schiff-Bustamante findings. The recommendation remains as stated above, the firm should ensure that it reports all state compliance findings as required by *Education Code* and K-12 Audit Guide.

**Attachment—
Firm's Response to Draft Report**

Jorge & Yribarren

Certified Public Accountants

Larry M. Jorge CPA, CFP
Steven B. Yribarren, CPA


Finding 1 - Item 1a

Workpaper deficiency

This response is in regards to the circumstances regarding the Bank confirmation letter stating a balance of \$ 24,101. The District had recorded a transfer from the savings account to the checking account to cover checks issued and released in the amount of 24,072.09.

Checks were issued and outstanding as of June 30th, 2002 in the amount of \$24,072.09. The money was withdrawn from the savings account to cover those checks. The final balance was adjusted by an amount of \$375 reflected in July 2002. Please use the evidence provided (Document # 4163.2 and 4163.1) to support the Balance per Books. The General Ledger reflects the appropriate amounts, including the \$375 adjustment.

Confirmed Balance	\$24,101
Less O/S checks	(24,072)
Add Deposits in Transit	1,251
Amount Per WTB in Cafeteria Fund	<u>\$650</u>


Steven B. Yribarren,
Certified Public Accountant

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Jorge & Yribarren

Certified Public Accountants

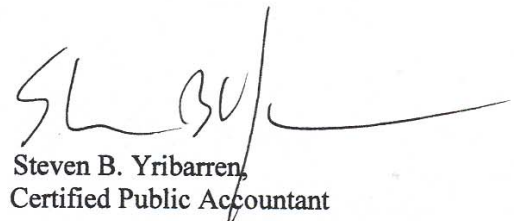
Larry M. Jorge CPA, CFP
Steven B. Yribarren, CPA

Finding 1C and Finding 4

Workpaper deficiency and Attendance Reporting

This response is in regards to the Audit Procedures performed according to Finding 4. Adequate procedures were performed according to the State Compliance Requirements. A copy of the working papers has been provided as evidence as to the work performed.

The reports are accompanied by the audit procedures required to perform the audit. The students were randomly selected for testing totals, and traced to teacher scantron attendance rosters for this period without error (AR 4.1 b). Students that were marked absent in the 1st period were traced to sign in sheets as arriving late, and thus correctly counted as present. All of these documents have been signed off on the bottom right corner of each page by the person preparing the workpaper, and on the left corner of the page by the supervisory review. The auditor notation, "so many changes very difficult to trace-pass" referred to one line in reporting period 3, which the auditor was able to ultimately trace to the teachers' reports without exception. Perhaps the notation should have been deleted; however, it does not require any additional procedures to be performed to determine accuracy.



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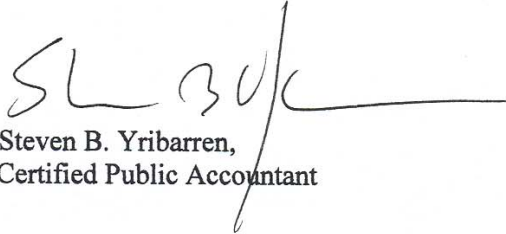
Larry M. Jorge CPA, CFP
Steven B. Yribarren, CPA

Finding 2

No evidence of supervisory review

In response to the documentation of the audit work performed, all of the working papers contain an evidence of a supervisory review in the bottom left corner of the paper. The auditor on the bottom right hand side also signs the work papers.

The documents pertaining to the rest of the findings in the Quality Control review provide a clear indication of the Supervisory review performed. The auditor signs on the right hand side corner, and the supervisor initials on the bottom left corner of the page.



Steven B. Yribarren,
Certified Public Accountant

Jorge & Yribarren

Certified Public Accountants

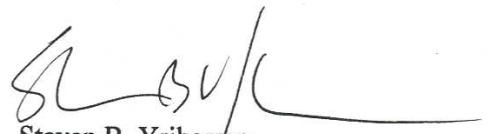
Larry M. Jorge CPA, CFP
Steven B. Yribarren, CPA

Finding 3

Schiff-Bustamante Standards - Based Instruction Materials

In response to procedure 4 for grades K-8, 9-12 and the list of instructional materials purchased, evidence is provided in the working papers. The list was reviewed and approved through a resolution adopted by the local governing board.

This response provides substantial evidence for the verification of the requirements for the Textbook and Instructional Materials Compliance for 2001-2002 was met (CS 9-27-02, IMF 1-3.4). Further evidence is provided in the Liabilities section for the purchase of books for those grades. The procedures contained in the audit program were initialed and dated by the auditing supervisor and the auditor. In addition the Auditor's Report on State Compliance did not need to be modified.



Steven B. Yribarren,
Certified Public Accountant

Jorge & Yribarren

Certified Public Accountants

Larry M. Jorge CPA, CFP
Steven B. Yribarren, CPA

Finding 3

Class Size Reduction (CSR) Program

In response to procedures 2 and 3 of the CSR training credentials, adequate information is provided pertaining to the validity of the training received. Documents CSR8.1- AR6a refer to the training received. The audit procedures required by the State Compliance Requirements for CSR program have been met. The working papers provide evidence of the audit programs designed to conduct the audit (CSR1-CSR 9). According to the response by Nancy Pittman, Administrator of Curriculum & Instruction, new teachers received six days of training in the Classroom Organization and Management Program developed by Vanderbilt University, and delivered by certified trainers. According to document AR 5 various teachers were randomly selected for testing. The document CSR 9 revealed the source of the information used to evaluate the teaching credentials. A random selection of 2-3 teachers per school were observed and verified by calling Juan Vyena at Fresno city of Education (265-3000). Class lists from Aide Garza at KCUSD were obtained to further verify the credentials necessary for implementing the CSR program. There is evidence indicating that the audit was performed according to the procedures specified in the State Compliance Programs. The procedures are signed off by the Auditing Supervisor and the Auditor. In addition the Auditor's Report on State Compliance did not need to be modified.



Steven B. Yribarren,
Certified Public Accountant

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>